

**OKANOGAN COUNTY SPECIAL PURPOSE DISTRICTS**  
**Okanogan County, Washington**  
**January 1, 1991 Through December 31, 1993**

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**Schedule Of Findings - Aeneas Lake Irrigation District**

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1. The District Should Classify Employees Properly

Our review of payroll disclosed that the district is paying an employee on a personal service contract.

RCW 50.04.140 states in part remuneration for services rendered by an individual is reportable employment unless it can be shown that the individual meets all three of the tests of "independence" shown below:

. . . (1)(a) Such individual has been and will continue to be free from control or direction over the performance of such service, both under his or her contract of service and in fact; and

(b) Such service is either outside the usual course of business for which such service is performed, or that such service is performed outside of all the places of business of the enterprises for which such service is performed; and

(c) Such individual is customarily engaged in an independently established trade, occupation, profession, or business of the same nature as that involved in the contract of service . . . .

Internal Revenue Service, Circular E, Publication 15, also states, that if the employer "has the legal right to control the method and result of the service" the individual is an employee.

We found that an individual considered to be an independent contractor by the district clearly did not meet all of the tests described in the above paragraphs.

The district failed to report the wages and consider the individual as an employee because it was unaware of the requirements above.

Failing to properly recognize the individual as an employee could expose the district to liability for unemployment claims, unpaid Federal Insurance Contribution Act (FICA) taxes, and withheld federal income taxes.

We recommend the district recognize as an employee, including proper reporting to state and federal agencies, any individual who performs services for the district and does not meet the above criteria for an independent contractor.

2. The District Should Account For Travel Expenditures In Accordance With State And Federal Regulations

Our review of travel expenses at Aeneas Lake Irrigation District disclosed the following weaknesses:

- a. The district has no travel policy.
- b. The district did not require an accounting for expenditures following the period of travel.

RCW 42.24.090 states in part:

No claim for reimbursement of any expenditures by officers or employees of any municipal corporation or political subdivision of the state for transportation, lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in a detailed account . . .

All claims authorized under this section shall be duly certified by the officer or employee submitting such claims on forms and in the manner prescribed by the division of municipal corporations in the office of the state auditor.

The *Budgeting, Accounting and Reporting System (BARS)* manual, Volume 1, Part 3, Chapter 3, pages 19-21 as promulgated by the State Auditor states in part:

The legislative body of each municipality must pass an ordinance or resolution to establish rules and regulations for reimbursement of travel expense.

Claims for reimbursement of travel expenses must contain a signed certification that includes the following language, "I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof."

The district was not aware of the regulations governing travel, and did not understand the importance of an officer or employee making an accounting of travel expenditures. As a result, errors or irregularities in travel costs may occur and not be detected in a timely manner.

We recommend the district establish a travel policy to comply with state requirements. We further recommend the district utilize itemized travel certification forms to document the reimbursement of all travel costs.